

Message Text

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TO AMEMBASSY WARSAW PRIORITY

C O N F I D E N T I A L STATE 128593

LIMDIS

E.O. 11652: GDS

TAGS:ETRD, EFIN, PL

SUBJECT: POLISH FINANCIAL SITUATION

1. SUMMARY. ON TUESDAY MAY 16, WISNIEWSKI, PRUCHNIEWICZ AND SPASOWSKI CALLED ON DASLUERS. ON WEDNESDAY, MAY 17 WISNIEWSKI AND PAWLISZEWSKI CALLED ON COUNSELOR NIMETZ. AS EXPECTED THE CHIEF SUBJECT FOR DISCUSSION WAS CREDIT. END SUMMARY.

2. VICE MINISTER OF FOREIGN TRADE PRUCHNIEWICZ TOLD LUERS THAT POLAND HAS SUCCEEDED IN REDUCING ITS HARD CURRENCY DEFICIT IN 1977, AND SAID THAT THE FOREIGN TRADE RESULTS SO FAR IN 1978 HAVE BEEN RATHER GOOD. THE YEARS 1978 THROUGH 1980 WILL BE DIFFICULT FOR POLAND BECAUSE CONFIDENTIAL

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POLAND WILL HAVE TO MAKE HIGH DEBT SERVICE PAYMENTS. PRUCHNIEWICZ SAID THERE WERE THREE SOLUTIONS TO THESE DIFFICULTIES: ACCESS TO FURTHER CREDIT; EXTENSION OF RE-PAYMENT PERIODS ON EXISTING CREDITS; OR SOME OTHER EASING OF POLAND'S CURRENT OBLIGATIONS. PRUCHNIEWICZ NOTED THAT POLAND WILL HAVE TO CUT BACK ON "INVESTMENT IMPORTS" UNLESS SOME SOLUTION CAN BE FOUND. HE ASKED WHETHER LUERS

HAD ANY SUGGESTIONS TO OFFER.

3. LUERS SAID THAT IT WAS PROBABLY INAPPROPRIATE FOR THE U.S. GOVERNMENT TO PROPOSE INVESTMENT AND IMPORT POLICIES FOR POLAND. SUCH RECOMMENDATIONS COULD BE TAKEN FOR INTERFENCE IN POLAND'S INTERNAL AFFAIRS. SINCE MINISTER PRUCHIEWICZ ASKED HOWEVER LUERS WOULD REPLY. WHEN FINANCE MINISTER KISIEL VISITED WASHINGTON LAST DECEMBER HE CAME PREPARED TO PROVIDE US SUBSTANTIAL INFORMATION ON THE POLISH DEBT AND INVESTMENT SITUATION. AT THAT TIME KISIEL DISCUSSED IN SOME DETAIL THE POLISH GOVERNMENT'S PLANS TO REDUCE CAPITAL AND CONSUMER IMPORTS OVER THE NEXT FEW YEARS. IN THAT CONTEXT HE HAD A USEFUL EXCHANGE WITH UNDERSECRETARY COOPER AND TREASURY OFFICIALS ABOUT INVESTMENT POLICIES. THE DISCUSSION WAS ALSO HELPFUL BECAUSE THE USG MUST HAVE ACCURATE INFORMATION ABOUT POLAND'S ECONOMIC SITUATION AND PLANS. THE PROGRAM THAT KISIEL HAD DESCRIBED FOR CORRECTING THE IMBALANCE IN POLISH HARD CURRENCY TRADE WAS THE SORT THAT MIGHT HAVE BEEN PROPOSED AND IMPLEMENTED BY THE IMF IF POLAND WERE A MEMBER OF THAT ORGANIZATION. LUERS NOTED THAT POLAND MIGHT WANT TO CONSIDER SOME MULTILATERAL OR INSTITUTIONAL APPROACH TO ITS CREDIT AND INVESTMENT PROGRAMS INVOLVING THE WESTERN COUNTRIES SO THAT WE CAN BE HELPFUL AND AT THE SAME TIME CANDID AND NOT RISK BEING PERCEIVED AS INTERFERING IN POLAND'S INTERNAL AFFAIRS. LUERS SAID THAT WE MUST BE

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INNOVATIVE ON THIS SCORE IN VIEW OF POLAND'S SPECIAL PROBLEMS AND SITUATION. LUERS ASKED FOR PRUCHIEWICZ TO CONSIDER WITH HIS GOVERNMENT HOW TO STRUCTURE OUR RELATIONSHIP TO PERMIT MORE CANDID EXCHANGES ON THESE DELICATE MATTERS.

4. PRUCHNIEWICZ ASKED ABOUT CCC CREDITS. LUERS SAID THAT SECRETARY BERGLAND WILL HAVE THE OPPORTUNITY TO DISCUSS THIS SUBJECT IN DETAIL DURING HIS VISIT TO WARSAW. WE ARE STILL NOT SURE WHAT CHANGES, IF ANY, CONGRESS WILL MAKE IN AGRICULTURAL CREDIT PROGRAMS. WE DO NOT KNOW WHETHER A PROGRAM TO PROVIDE LONG TERM AGRICULTURAL CREDITS WILL BE ESTABLISHED. WE UNDERSTAND THAT IF LONGER TERM CREDITS ARE LEGISLATED, THE EXECUTIVE BRANCH IS APT TO APPLY THEM PRIMARILY TO THE PURCHASE OF EQUIPMENT, STORAGE FACILITIES AND LIVESTOCK, AND NOT TO GRAIN SALES.

5. PRUNCHNIEWICZ ASKED WHETHER THERE IS ANY POSSIBILITY THAT THE USG COULD RESCHEDULE SOME OF THE REPAYMENTS DUE IN 1978, 1979 OR 1980. LUERS SAID THAT ALTHOUGH WE ARE AWARE OF POLAND'S PREFERENCE FOR BILATERAL ARRANGEMENTS, THE USG COULD NOT RESCHEDULE DEBT EXCEPT IN COORDINA-

TION WITH POLAND' OTHER CREDITORS. THIS WOULD INCLUDE

OTHER WESTERN GOVERNMENTS; COMMERCIAL CREDITORS; AND POSSIBLY CEMA CREDITORS. SHOULD THE POLISH GOVERNMENT CONSIDER SUCH A STEP, IT MIGHT HAVE AN ADVERSE EFFECT ONTHE AVAILABILITY OF COMMERCIAL CREDITS TO POLAND.

6. PRUCHNIEWICZ SAID THAT POLAND IS NOT SEEKING RESCHEDULING OF ALL US CREDITS BUT ONLY THE POSSIBILITY OF RESCHEDULING CCC CREDITS. HE SAID THAT CANADIAN CREDITS CAN BE REPAYED AT THE END OF THE THREE YEAR REPAYMENT PERIOD. LUERS SAID THAT WE REVIEWED THI POSSIBILITY PRIOR TO THE PRESIDENT'S TRIP TO WARSAW AND HAVE FOUND IT TO BE IN VIOLATION OF

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US POLICY. WE WILL LOOK INTO THE MATTER AGAIN, BUT LUERS SAID HE IS SKEPTICAL.

7. ON MAY 17 WISNIEWSKI AND POLISH DCM PAWLISZEWSKI MET WITH COUNSELOR NIMETZ. THIS MEETING WAS ARRANGED AT THE VERY LAST MINUTE WHEN IT BECAME APPARENT THAT A MEETING

SCHEDULED WITH ASSISTANT SECRETARY KATZ WOULD HAVE TO BE CANCELLED DUE TO SCHEDULING PROBLEMS OF BOTH KATZ AND WISNIEWSKI. THE TWO POLES APPEARED UNHAPPY THAT THEY COULD NOT SEE KATZ, BUT THEIR UNHAPPINESS DISAPPEARED ONCE DEPARTMENT OFFICERS WERE ABLE TO EXPLAIN TO THEM WHERE NIMETZ FITS INTO THE DEPARTMENT'S HIERARCHY.

8. WISNIEWSKI TOLD NIMETZ THAT THE POLISH AGRICULTURAL SITUATION IS VERY SENSITIVE. POLANDHOPES THAT THE US WILL CONTINUE TO COOPERATE, PARTICULARLY WITH REGARD TO CCC CREDITS. WISNIEWSKI SAID THE POLES HAD HOPED AND HAD BEEN GIVEN TO UNDERSTAND THAT NEW LEGISLATION WOULD IMPROVE CCC CREDIT TERMS. HE HAD HOPED POLAND MIGHT BE ABLE TO GET CCC CREDIT WITH A GRACE PERIOD AND REPAYMENT AFTER THREE YEARS. HE SAID CANADA ALREADY PROVIDES CREDIT ON SUCH TERMS. HE ASKED WHAT THE DEPARTMENT'S VIEW IS. NIMETZ SAID THAT THE OPINIONS OF CONGRESS AND THE WORLDWIDE EFFECTS OF CHANGES IN AGRICULTURAL CREDIT POLICY MUST BE TAKEN INTO CONSIDERATION. WE RECOGNIZE THAT OUR INABILITY TO OFFER IMPROVED REPAYMENT TERMS IS A CONSTRAINT ON OUR UNIQUE RELATIONSHIP WITH POLAND. WISNIEWSKI COMMENTED THAT US POLICY SEEMS INCONSISTENT. THE US ADVOCATES AN INDIVIDUAL APPROACH IN ITS RELATIONS WITH EACH COUNTRY AND YET SEEMS FORCED BY LEGISLATIVE CONSTRAINTS INTO AN UNDIFFERENTIATED APPROACH. NIMETZ RESPONDED THAT

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THE US DOES CONSIDER THE INDIVIDUAL NEEDS OF EACH COUNTRY. HE SUGGESTED. WISNIEWSKI CONSIDER, FOR EXAMPLE, THE RELATIVE AMOUNTS OF CREDIT THE US HAS EXTENDED HUNGARY, ROMANIA AND POLAND. FURTHERMORE, THESE SAME LEGISLATIVE CONSTRAINTS HAVE RESTRICTED WHAT WE CAN DO EVEN FOR OUR ALLIES, SUCH AS TURKEY. PAWLISZEWSKI ASKED WHETHER THERE ARE ANY OTHER POSSIBLE FORMS OF CREDIT. NIMETZ SAID IT IS DIFFICULT TO FORESEE ANY ALTERNATIVE POSSIBILITIES TO CCC AND EXIM. WISNIEWSKI ENDED DISCUSSION OF CREDIT WITH THE COMMENT THAT HE WOULD RETURN TO POLAND WITH A POSITIVE IMPRESSION OF OUR CONCERN FOR POLAND'S FINANCIAL SITUATION'

9. NIMETZ RAISED THE SUBJECT OF FAMILY REUNIFICATION. HE SAID THAT THE COMPLAINTS WE ARE RECEIVING ARE BEGINNING TO CREATE AN UNFAVORABLE IMPRESSION IN CONGRESS. PAWLISZEWSKI SAID THAT MANY CASES ARE BEING SOLVED, AND THAT THE POLISH EMBASSY HAS TRIED TO DO WHAT IT CAN. NIMETZ AGREED THAT THE EMBASSY HAD BEEN HELPFUL IN SOME CASES, BUT THE US HAD EXPECTED MORE RESULTS, PARTICULARLY AFTER THE PRESIDENT'S VISIT. VANCE

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